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DATE: January 17, 2002

LETTER NO: 2002-CU-01

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: RegFlex and Its Impact on State-Chartered Credit Unions

This letter is to advise credit union officials of the provisions of NCUA's RegFlex program, which becomes effective March 1, 2002 for federal credit unions, and how those provisions compare with existing Michigan statutes regarding credit union operations.

REGFLEX PROVISIONS

Credit unions meeting certain criteria will automatically receive RegFlex status. The criteria are: receiving a composite CAMEL rating of 1 or 2 for two consecutive exams, and having a net worth ratio of 9.00% or greater. For complex credit unions, as defined by Prompt Corrective Action, the net worth requirement is 9.00% *or* 200 basis points over the minimum level for it to be classified as well-capitalized, whichever is greater.

Specific federal "regulatory relief" offered to qualifying federal credit unions is as follows:

- *Elimination of the 5% Fixed Assets/Assets Limitation.* Michigan state-chartered credit unions are not bound by this limitation. Michigan statute limits the total of *land and building only* to 5% of shares, deposits, undivided earnings, and reserves. Michigan credit unions have always been able to apply for waivers to the 5% limitation, and shall continue to be able to do so.
- *Lifting of Certain Part 703 Investment Requirements.* RegFlex will remove restrictions on certain investment activities of federal credit unions. Michigan state-chartered credit unions are not required to comply with the provisions of Part 703. Therefore, the restrictions lifted by RegFlex are not ones which affect Michigan state-chartered credit unions.
- *Lifting of Requirements for Charitable Donations.* Current NCUA rules limit recipients of charitable donations to organizations located in or conducting activities in a community in which the credit union has a place of business. RegFlex will eliminate this requirement. Michigan state-chartered credit unions do not have a similar restriction on charitable donations.

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- *Lifting of Limitation of Public Unit and Nonmember Shares.* Current NCUA regulations limit the maximum amount of all public unit and nonmember shares to 20% of total shares or \$1.5 million, whichever is greater. Michigan state-chartered credit unions do not have a limitation on public unit and nonmember shares. The Michigan Credit Union Act allows for the receipt of shares from other credit unions, retirement plans, and governments and/or their agencies.
- *Lifting of Limitation for Purchased Eligible Obligations.* Current NCUA regulations limit the unpaid balance of purchased obligations to 5% of the unimpaired capital and surplus of the purchaser. There is no such similar limitation for the purchase of eligible obligations by Michigan state-chartered credit unions.

SUMMARY

The provisions of RegFlex do not directly affect Michigan state-chartered credit unions. Michigan credit union law does not impose the regulatory burdens which RegFlex seeks to alleviate. The Office of Financial and Insurance Services is committed to effective supervision of Michigan state-chartered credit unions without undue regulatory burden, and we will continue to promote and protect credit union safety and soundness in that manner.

Sincerely,

Roger W. Little, Deputy Commissioner
Office of Financial and Insurance Services
Credit Union Division